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THE COTTON SITUATION

Summary

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U.S. DEPOSITORY

Spot cotton prices in the United States averaged 12.50 cents in June compared with 13.12 in May and 11.96 in June 1936. Prices strengthened in the second week of July but declined materially after the middle of the month, the Bureau of Agricultural Economics reports. The downward trends in unfilled orders and mill activity in the domestic textile industry have tended to depress prices.

Consumption of all cotton continued at a very high level throughout most of the important cotton consuming countries of the world during June. Extremely large exports of cotton from India, Egypt, and Brazil so far this season have accompanied the record large consumption of these and other foreign cottons by mills in foreign countries. While world mill activity and cotton consumption are not expected to show any substantial decrease in the near future, the continued lagging of new orders for cotton goods behind mill production in several important countries makes the longer-time outlook somewhat uncertain.

The domestic cotton textile industry consumed slightly less cotton in June than in the abnormally high month of June 1933, but with that exception consumption was the largest for any June on record. Mill activity tended to decline gradually during June and July. Mill sales of goods took a temporary spurt in the first part of July, but by the middle of the month were once more running behind mill output.

Indications at the present time point to the probability of a larger acreage and perhaps production of cotton in 1937-38 than in 1936-37 in several

important cotton growing countries. The Crop Reporting Board reported an acreage of cotton in cultivation in the United States on July 1 of 34,192,000 acres. This represents an increase of 10.4 percent over the area in cultivation on the corresponding date last season. The official estimate of the Egyptian government places the cotton area for the 1937-38 crop at 2,053,000 acres, an increase of 15 percent over the previous season. Yields per acre in 1936-37, however, were the highest since 1899-1900 and much higher than average. The first preliminary estimate of the new crop in China (including Manchuria) is for a production of about 4,200,000 bales of 478 pounds on an acreage between 10 and 15 percent greater than in 1936-37.

PRICES IN UNITED STATES LOWER IN JUNE

Spot cotton prices at the 10 markets were lower in June than in May but higher than a year earlier. The average for June was 12.50 cents compared with 13.12 in May. The high was 13.02 cents on June 2 and June 5 and the low 12.15 on June 14. In June 1936 the 10-market average was 11.96 cents. Factors tending to depress prices during June included the downward trends in unfilled orders and mill activity in the domestic textile industry. Since July 15 prices have declined materially and on July 26 was lower than for any day since March 1936.

Prices of Indian and Egyptian cottons at Liverpool, expressed as a percentage of American, continued in June, as in May, to be higher than in earlier months. The ratio of three types of Indian to two types of American, a ratio of 83.8, was the highest relative price for Indian since December 1935. The ratio of Egyptian Uppers to American Middling declined to 130.6 compared with 132.3 in May, but with that exception the price of Uppers was higher relative to American than in any month since February 1933. The ratios of Brazilian and Peruvian cotton to American have been substantially unchanged for several months.

EXPORTS IN JUNE BELOW THOSE A YEAR EARLIER

Domestic exports of cotton from the United States to all countries in June amounted to 230,000 bales compared with 297,500 in June 1936, a decrease of 23 percent. Shipments were smaller to all important foreign countries except Italy and Germany. Exports in the 11 months ended June totaled 5,316,000 bales compared with 5,816,000 a year ago, a decline of 9 percent.

Exports of cotton from India in May were 347,600 bales compared with 333,700 in May 1936 and an average for May during the 10 years ended 1932-33 of 247,300 bales. Shipments from India have been unusually large in most months during the current season. In the 10 months ended May, exports of 3,046,800 bales were 18 percent larger than in the corresponding period a year ago, 31 percent above the 10-year average, and higher than in any corresponding period on record.

Exports from Egypt in June were 86,600 bales compared with 99,900 in the corresponding month last season and a May average of 89,800 in the 10 years ended 1932-33. In the 11 months ended June, shipments totaled 1,766,200 bales compared with 1,603,100 in the corresponding period a year earlier. The total for the first 11 months this season was the highest for the corresponding 11 months in any year, with the exception of 1933-34 when the volume was only slightly larger than this year.

Exports of cotton from Brazil were heavy in April, the most recent month for which export data are available. Shipments were only slightly above those of April 1936, but were much larger than in any other April. Cumulative exports in the 9 months ended April were 662,600 bales compared with 419,200, 567,600, and 144,800 bales in the corresponding months in 1935-36, 1934-35, and 1933-34, respectively.

THE TEXTILE SITUATION

Domestic Mill Activity Declined Moderately in June - Sales of Goods Below Output in June, but Temporarily Above Output in Early July

Consumption of cotton by mills in the United States amounted to 681,400 bales in June. With one exception, this is the largest consumption for any June on record. The slightly larger utilization of 697,300 bales in June 1933 was a part of the short-lived spurt in mill activity and cotton consumption which occurred in the spring and summer that year, and was associated with the devaluation of the dollar, the enactment of other recovery legislation, and the impending imposition of the processing tax.

Trade reports state that mill sales of both finished and unfinished goods continued to run behind mill output in June. Mill margins declined as compared with May and other recent months, although margins were wider than in any June since 1926 when data on margins became available. Consumption in the 11 months ended June amounted to 7,362,000 bales, an increase of 28 percent over consumption in the same 11 months last season. This is a record high utilization for this period.

Mill sales of goods improved during the first 2 weeks of July, according to the New York Cotton Exchange Service. This was the first definite improvement since orders began lagging behind mill output in the middle of March. Sales of unfinished goods are reported to have been well in excess of current output. Sales of finished goods were not so large but were approximately equal to production. This increase in the activity of the cotton goods market was due mainly to buying by distributors and important industrial consumers who had permitted their stocks to become depleted during the last 3 or 4 months. The spurt in new orders, however, was very short-lived. The weakness in raw cotton prices since the middle of the month has been accompanied by a slackness in new business in cotton goods and sales of both finished and unfinished goods have been below mill output.

European Mill Activity Continues High - New Orders Continue to Lag Behind Mill Output - Outlook Less Favorable 1/

The European cotton textile situation was characterized by a high level of mill activity and cotton consumption during June, but some elements of hesitancy and weakness were present during the month. The principal reasons for the latter condition are to be found in the reluctance of manufacturers and distributors to 1/ Prepared largely from a report from Agricultural Attache Lloyd V. Steere at Berlin, under date of July 8.

make forward commitments in the face of the general unsettled world situation, the economic difficulties in France, and some weakness in raw cotton prices. So far there has been no significant reduction in mill activity but some reduction appears to have occurred as a result of shorter working hours in some French mills. However, if sales of spinners and weavers continue to fall below the current level of mill output, as has been the case during the last 3 or 4 months, some curtailment of mill operations will be inevitable. For the next several months activity of the European cotton mills probably will not be significantly curtailed because of the large volume of unfilled orders still held by mills in most countries. Some seasonal increase in activity and cotton consumption may take place in the fall. For a longer period ahead, however, the outlook has become more uncertain and, therefore, less favorable.

United Kingdom.-- Although little improvement was evident in England in the demand for yarn and cloth during June, a substantial volume of unfilled orders booked earlier in the year operated to sustain mill occupation at a high level throughout the month. Exports of yarn and piece goods compared fairly well with exports in the corresponding month in recent years. Cloth exports were the largest for any June since 1932. Retail sales were large in the home market and manufacturers showed little, if any, disposition to make price concessions in order to obtain new orders.

Germany.-- There is apparently a growing scarcity of raw material supplies for the German cotton textile industry. A recent ordinance of the Textile Supervisory Office has made it compulsory to obtain buying permits for the purchase of all yarns, twists of cotton, and mixed cotton material. Furthermore, specific manufacturing quotas have been established for firms using cotton and mixed cotton yarns. It is perhaps worthwhile to mention one or two of the regulations in order that an idea may be obtained of how far Government regulation of the textile industry has proceeded in Germany. Now, it is required that the removal of cotton yarns from the spinning to the weaving section in the same enterprise be treated as a purchase and, therefore, subject to special regulation by the Supervisory Office. Every buyer of cotton or mixed cotton yarns must apply prior to the making of a purchase for a permit to purchase cotton yarn, and only after the receipt of a preliminary permit may he cover his requirements. Within two weeks after the transaction, he must submit to the Supervisory Office the purchase contracts and other documents, together with application for the final permit, and only when the final permit has been granted may the transaction be considered as closed. Other regulations which have been issued recently include a restriction on the utilization of staple fiber wastes which hereafter may be used as a raw material only to the extent of the average quarterly utilization in 1936.

Recent reports indicate that activity in the German textile industry remained comparatively high during June. The demand for yarn and manufactures has been strong, but this demand could only be satisfied within the limitations imposed by the limited supply of raw materials and the newly imposed restrictions.

Imports of American cotton into Germany so far this season show a decrease both absolutely and as a percentage of the total as compared with last year. Imports of all cottons have decreased compared with last season, but the drop in takings of American has been particularly sharp.

France.- The rather unsettled conditions which prevailed in the French cotton industry in May continued in June. Some pick up in business in yarns and fabrics has been reported for June, however, and mill activity has been only moderately restricted. The outlook for the textile industry in France depends largely upon the solution of the present economic difficulties facing the country and the course of general business in the future. Other things being equal, the export trade in cotton textiles should be helped by the recent depreciation of the franc.

Italy.- The Italian cotton textile industry showed increased activity in June. This is a continuation of the extraordinary recovery which has featured the industry during the present season. Spinning and weaving mills had attained by April the highest rate of activity in recent years, and cotton consumption and trade in manufactures expanded to still higher levels in May and June. Larger quantities of raw material were available in June, both for the manufacture of goods for export and for the domestic market. Undoubtedly the more abundant supply of raw cotton has stimulated mill operation in the last few months. Imports of raw cotton from January to May 1937 were three times as large as imports in the corresponding 5 months in 1936. From January to May 1937 exports of yarn were nearly five times as large as in the corresponding period a year earlier, and exports of cotton fabrics three times as large. The general outlook for Italian demand for raw cotton can be regarded as quite favorable, especially since it is so closely linked with the improvement in exports of cotton textiles. A large part of Italian exports of cotton goods go to the Balkans, to the Near East, and to South America, where improving economic conditions are reported.

Czechoslovakia.- Favorable progress in general economic conditions continue to be reflected in an improvement in the cotton textile industry. Home buying as well as export sales lately have been on a satisfactory level. It is believed, however, that the increasing volume of exports of cotton manufactures from Italy may soon displace considerable quantities of Czechoslovakian textiles in foreign markets. It is also thought likely that Germany will impose new regulations on the trade in textiles which will interfere with Czechoslovakian exports to that country.

Austria.- Operations in the Austrian textile mills continued at a fairly satisfactory level during June. The export trade in cotton yarn has improved as the result of an active demand from Rumania and of government policies on the promotion of cotton yarn exports.

High Level of Mill Activity and Cotton Consumption Continues to Characterize Japanese and Chinese Industries 2/

Japan.- Yarn production in Japan during June amounted to 341,460 bales of 400 pounds each. This is the largest yarn output in any month on record, and it is the seventh consecutive month in which yarn production has been higher than in any corresponding month in the past. It is not expected that yarn production and mill activity will continue at this extremely high level beyond early fall. Forward sales of yarn have begun to decline. Production costs also are reported to be slowly rising due to increased prices for raw cotton and to some

2/ Prepared largely from information furnished by Agricultural Commissioner Dawson at Shanghai in cables dated July 13, 14 and 21.

extent to increasing labor costs. Rising prices for cotton in Japan are due mainly to weakness in the yen and to the feeling of the trade that the present system of import permits probably will be used to impose a considerable amount of restriction on imports of raw cotton. A further disquieting influence is the fact that exports of cotton cloth have ceased their upward trend and in the last year and a half have been about the same as or somewhat smaller than in the corresponding months of the peak year 1934-35.

Domestic consumption of cotton goods has been increasing, but the overwhelming importance of cotton textile imports in the Japanese balance of international payments makes any check to cotton textile exports a serious threat to the value of the yen and to Japan's ability to purchase in world markets the increased volume of raw materials required by her growing population and increasing industrialization. It is rumored that the Government may inaugurate a system of export subsidies for cotton goods, the cost of the subsidy to be met by the increase of prices in the domestic market.

At the present time the Government is exercising considerable control over the raw cotton market through the issuance of import permits. Speculative activities have been greatly reduced because the Government has refused to issue permits to importers for more than the equivalent of 2 months' quotas at one time. Since mills must buy at least 2 months ahead, merchants are forced to buy regularly at prevailing world prices in order to keep the supply of cotton steady and adequate.

The regulation of cotton imports has not resulted in any actual scarcity of raw material up to the present time. In fact, stocks of all cotton in port warehouses in Japan on June 30 amounted to 788,000 bales, or 36 percent more than stocks on the corresponding date a year earlier. Most of this increase in stocks as compared with last year was accounted for by stocks of American cotton which totaled 346,000 bales or nearly twice the number on June 30, 1936. Other things being the same, these comparatively large stocks of American cotton should tend to reduce imports of American during the next few months. This increase in the holdings of American cotton has resulted from heavy imports of American relative to mill consumption. Imports of 1,432,000 bales of American from September to June were slightly larger than in the corresponding period last year, but mill consumption of American cotton has been running at a lower rate than last season. It is estimated that consumption of American cotton in the season as a whole will be about 15 percent less than in 1935-36, while consumption of all growths will probably be about 7 percent larger. Imports of all cotton in the period September to June totaled 3,887,000 bales, or 20 percent more than the same period a year earlier. Indian, Egyptian, Chinese, Brazilian, and miscellaneous growths all shared in the increase.

China.- Arrivals of Chinese cotton at Shanghai continued to be very heavy during June. Consumption of cotton by spinning mills remained high during the month, and mills are reported to have a large volume of unfilled orders for yarn. Mill stocks of raw cotton at Shanghai at the end of the month were estimated to be equal to 2 to 3 months' consumption. Imports of foreign growths of cotton were negligible in volume, and with adequate stocks and continued heavy arrivals of Chinese cotton it is likely that imports during the coming months will continue to be small.

The accompanying table presents the latest revised figures on the supply and distribution of Chinese cotton. The data include Manchuria. Production and consumption of cotton in Manchuria, however, are relatively small; this was especially true in the earlier years covered by the table. Much of the data are estimated on the basis of incomplete information and more or less arbitrary assumptions. The data are the best that are available at the present time, however, and they are probably substantially correct. The sharp increase in the estimated total disappearance in the past 5 or 6 years has coincided with the marked expansion in production. The increased total disappearance has resulted from a larger mill consumption, since home consumption has been about the same or smaller, and exports have been materially smaller in recent years than in most seasons during the 1920's. If mill consumption of all kinds of cotton were shown, it would be seen that its increase has been much less rapid than the increase in the mill consumption of Chinese cotton. This has been the result of the sharp decrease in imports of cotton into China since 1931-32; imported cotton has been replaced in mill consumption by Chinese cotton.

Acreage in United States on July 1 10.4 Percent Above Last Year.
Increased Production Expected in 1937-38 in Egypt and China.

United States.- The Crop Reporting Board reported an acreage of cotton in cultivation in the United States on July 1 of 34,192,000 acres. This is an increase of 10.4 percent over the 30,960,000 acres in cultivation on July 1, 1936, but is 17.5 percent less than the average for the 10 years ended 1932-33. The largest increases in acreage compared with last year occurred in the far west (67 percent in California) and in the eastern part of the Cotton Belt (16 percent in South Carolina, 15 percent in Georgia, 13 percent in Tennessee, 12 percent in Mississippi, and 10 percent in Alabama). The smallest increases were in Texas and Oklahoma which showed gains of 7 and 3 percent, respectively. Under average conditions, this distribution of the increased acreage should make for a higher average yield per acre than would be the case if the increase in acreage had been evenly distributed over the Belt. This is true because of the higher yields per acre in the old cotton growing States in the East and in the irrigated States of the far west than in other states.

Provided the 10-year average abandonment of 2.3 percent occurs and assuming a yield per acre equal to the highest in the past 10 years, the crop would amount to nearly 15,000,000 bales. With a yield equal to the lowest in the past 10 years, the crop would amount to about 11,000,000 bales, and with 1932 to 1936 average yields to about 13,000,000 bales. Reports from trade sources indicate that weather conditions continue to be favorable to the development of the crop.

Fertilizer tag sales in 8 cotton States as reported by the National Fertilizer Association indicate that much more fertilizer is being used in the South this season than for several years past. Tag sales from December to the end of June totaled 3,994,000 tons compared with 3,108,000 tons in the corresponding period last season. These are the heaviest sales of fertilizer since 1929-30 when tag sales from December to the end of June totaled 4,365,000 tons. Tag sales per acre in the 8 States are higher so far this year than for several seasons past. Since 1920-21 the heaviest sales of fertilizer in the corresponding 7-months period were 4,380,000 tons in 1927-28, and the lightest sales occurred in 1931-32 when they amounted to 1,801,000 tons.

Chinese Cotton: Estimated production, disappearance and
stocks in China 1/, 1920-21 to date

1	2	3	4	5	6	7	8
Season beginning August 1	Estimated production : 2/	Mill consumption :	Exports :	Estimated home consumption 2/	Estimated total disappearance	Apparent change in stocks : (col. 3 minus 6)	Estimated stocks on hand at end of season
	1,000 bales of 478 lbs.	1,000 bales of 478 lbs.	1,000 bales of 478 lbs.	1,000 bales of 478 lbs.	1,000 bales of 478 lbs.	1,000 bales of 478 lbs.	1,000 bales of 478 lbs.
1920-21	2,406	849	130	1,151	2,130	276	729
1921-22	2,197	1,025	195	1,046	2,266	- 69	660
1922-23	2,510	1,179	249	941	2,369	141	801
1923-24	2,406	1,223	232	941	2,446	- 40	761
1924-25	2,510	1,255	271	941	2,467	43	804
1925-26	2,453	1,203	232	889	2,324	134	933
1926-27	2,301	1,224	306	889	2,419	- 113	820
1927-28	2,824	1,438	363	839	2,745	79	899
1928-29	2,720	1,331	292	889	2,542	178	1,077
1929-30	2,453	1,599	251	839	2,739	- 231	796
1930-31	2,615	1,463	227	889	2,579	36	832
1931-32	2,092	1,029	207	837	2,073	19	851
1932-33	2,720	1,730	210	889	2,829	- 109	742
1933-34	2,931	1,863	160	889	2,917	64	806
1934-35	3,243	2,113	79	839	3,031	162	968
1935-36	2,667	2,003	178	837	3,013	- 351	617
1936-37	3,870	2,427	<u>5/</u> 262	837	3,526	344	961
1937-38	4,200						

From data furnished by Agricultural Commissioner, O. L. Dawson, at Shanghai.

Estimates of mill consumption based on Chinese Cotton Millowners' Association data adjusted to August 1 basis.

Data on exports based on Chinese Customs figures for calendar years adjusted to an August to July year except from 1932-33 to date which are based on official monthly data.

1/ Including Manchuria.

2/ Original estimates in bales of 500 pounds net rounded to nearest fifty thousand.

3/ Preliminary.

Egypt.- The first official estimate of the Egyptian government places the area under cultivation in Egypt for the 1937-38 crop at 2,053,000 acres, an increase of 15 percent over the area of 1,781,000 acres in this last season. This is the second largest acreage ever planted to cotton in Egypt. The 1936-37 crop was a record high of 1,837,000 bales, due to the unusually high yield of 506 pounds per acre. This was the highest yield in any year since 1899-1900. If the yield per acre in this coming season should be as large as in 1936-37, the new crop would amount to 2,170,000 bales of 478 pounds. If yields should be 413 pounds per acre (the lowest in the last 5 years), the crop would amount to 1,737,000 bales. If outturn per acre should be 459 pounds (the average for the 5 years ended 1936-37), production would be 1,970,000 bales.

China.- The first estimate of the 1937-38 cotton crop in China (including Manchuria), as reported by Agricultural Commissioner Dawson, at Shanghai, is 4,000,000 bales of 500 pounds net weight, or approximately 4,200,000 bales of 473 pounds net. This estimate of production is based upon an estimate of acreage from 10 to 15 percent greater than in 1936-37 and a slightly higher yield per acre than in 1936-37. The weather so far this season has been favorable to the planting of a large acreage and to a satisfactory development of the crop. This forecast of Chinese production is admittedly very tentative, but it seems likely that 1937-38 production will establish a new high record unless weather conditions should be very unfavorable throughout the remainder of the season. (See foregoing table.)

Russia.- Hot, dry weather prevailed in the main cotton regions of Russia during June, conditions which can be regarded as favorable to the development of the new crop. Warm weather with sufficient rainfall is reported from the "new cotton regions" (southern European Russia where cotton is grown without the aid of irrigation.) It is believed that timely and thorough cultivation and irrigation are particularly important this year in the Russian cotton area. The first cultivation of cotton was practically completed by June 10 with 4,759,000 acres worked by that date, and the second cultivation was nearing completion by June 25 in the irrigated regions. Approximately the same area was worked for the first and second cultivation this year as in 1936. However, a lag is reported with respect to the third cultivation, with little more than half of the whole area cultivated for the third time by June 25, whereas the plan provided for the completion of the third cultivation by the first of July. It is believed that irrigation has not been entirely adequate and satisfactory.

Argentina.- The third estimate of 1936-37 in Argentina places the cotton crop of that country at only 192,000 bales. The expectation of such a relatively small crop is due to a very low yield per acre as a result of extremely unfavorable weather and heavy insect damage. On the basis of present indications as to acreage and production, the yield per acre will amount to only 123.5 pounds. In the 5 years ended 1935-36 yields averaged more than 200 pounds to the acre. Acreage planted in Argentina in 1936-37 was at an all-time high of over one million acres. However, abandonment reduced the area to an estimated 713,000 acres. In 1935-36 the cotton area amounted to 763,000 acres and in the 5 years 1932-33 to 303,000 acres. Production totaled 373,000 bales in 1935-36, 295,000 in 1934-35, and 145,000 bales on the average, from 1928-29 to 1932-33. The very small production expected this season in Argentina represents a major, though possibly temporary, setback to what appeared to be a swiftly rising trend in cotton production.

UNIVERSITY OF FLORIDA



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